

SMALL ISSUE INDUSTRIAL DEVELOPMENT BONDS (IDBs) FACT SHEET: TAX-EXEMPT BONDS

WHAT IS A TAX-EXEMPT IDB?

Tax-Exempt IDBs are debt obligations of qualified manufacturing companies, which are issued and sometimes guaranteed by ADFA. The bonds are sold, usually by investment bankers, in the national capital markets. The interest income earned by the buyers of these bonds is not taxed on the federal level nor on the state level, if the bonds are purchased by Arkansans.

IS THIS FORM OF FINANCING A LENGTHY PROCESS?

Any application for an issued and/or guaranteed IDB must go before the ADFA Board of Directors which meets once each month. Past operating history indicates applications which are received by the ADFA staff near the first of each month usually have the quickest response time. Once the approval is received, the actual closing of the bond issue or an interim loan usually takes no longer than a commercial loan of the same size and complexity.

WHAT IS THE INTEREST RATE ON THE ADFA GUARANTEED, TAX-EXEMPT, IDB?

The interest rate is affected by the prevailing interest rate environment at the time the bonds are sold. Historically, tax-exempt rates have been approximately 1.5% less than comparable taxable bond issue rates. Early in the application process, an estimate of the net effective interest rate can be given by the ADFA staff so the borrower can forecast the effect the debt service requirements of the IDB will have on their financial performance. Another major benefit, in addition to below-market interest rates, is the ability to obtain long-term fixed rates for up to 20 years.

WHAT TYPE OF PROJECTS QUALIFY?

IDBs are restricted by Federal law to financing the acquisition of buildings, equipment, and land for manufacturing companies. The companies must show the ability to repay the loan and must also contribute equity toward the project's cost. The company must show that substantial new employment or prevention of job loss will be a direct result of the IDB.

WHAT ARE THE MAJOR RESTRICTIONS OF A TAX-EXEMPT IDB?

This form of financing is open only to manufacturing companies to help them finance the expansion or purchase of fixed assets to be used in the manufacturing process. An Inducement Resolution or Declaration of Intent must be issued before any funds can be expended for the project. Refinancing is not allowed and capital expenditure limitations apply as well as limitations on the amount of IDBs currently outstanding on behalf of the company nationwide.

